



Date: January 24, 2025

To: Sheryl M.M. Long, City Manager

From: Lauren Sundararajan, CFE, Internal Audit Manager *LS*

Copies to: Internal Audit Committee
William Weber, Assistant City Manager
Markiea Carter, Department of Community and Economic Development Director

Subject: **Residential Tax Abatement Program Audit**

Attached is the Residential Tax Abatement Program audit report. The primary objective of this performance audit was to assess program performance and operations to determine if the Department of Community and Economic Development (DCED) is effectively and efficiently administering the Residential Tax Abatement Program. This audit was conducted in accordance with the current audit agenda.

We would like to thank the management and staff of DCED for their assistance and cooperation during this audit.

If you need any further information, please contact me.

Attachment

Residential Tax Abatement Program Audit

January 2025



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Internal Audit Manager

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Executive Summary

Internal Audit (IA) conducted a performance audit of the Department of Community and Economic Development's (DCED) Residential Tax Abatement Program (RTA). The primary objective of this audit was to assess program performance and operations to determine if DCED is effectively and efficiently administering the Residential Tax Abatement Program.

The Community Reinvestment Area (CRA) Program makes it possible for residents seeking renovations, improvements, or new housing construction to reduce their taxes by paying taxes on the pre-improvement value of their property for up to 15 years. This reduces barriers to residential development and renovations, helping to make homeownership more accessible and increasing project viability and investment beyond what would otherwise be feasible.¹

DCED is responsible for the overall operation of the RTA Program, which includes review and processing of the submitted applications, while the Hamilton County Auditor's office determines the value of the tax abatement given to applicants' property. IA reviewed 42 tax abatements for compliance with program guidelines and found three errors. Although IA was informed that these errors were an oversight and did not have an impact on the tax abatement given to the applicant, this type of oversight could have several negative effects. Communication based on incorrect information could potentially cause confusion for recipients, which may lead to increased complaints, legal challenges, the need for re-work, and erosion of stakeholder's trust.

Overall, IA found that DCED is meeting the objectives of the RTA Program; however, to minimize the risk of errors and ensure effective program operations, IA recommends that DCED implement a more robust management review process.

¹ DCED website. <https://www.choosecincy.com/residentialcras>.

I. Introduction

Background

The Community Reinvestment Area Program is a direct incentive tax exemption program created by the State of Ohio to aid property owners who renovate existing or construct new buildings. It permits municipalities and counties to designate areas where investment has been discouraged and offer CRA programming to spur revitalization of the existing housing stock and new development. The City of Cincinnati's (City) entire municipal area is one CRA, with DCED running two programs: Commercial Tax Abatements and Residential Tax Abatements.² For purposes of this audit, IA's primary focus was on Residential Tax Abatements.

After years of careful study and research conducted by the City, local experts, and community partners, as well as extensive community feedback and a robust legislative process, in 2023, DCED's RTA Program underwent a major reform process that was intended to promote the program's use more equitably across all Cincinnati neighborhoods.³ The three major changes to the program were establishing a tiered neighborhood system, streamlining process and increasing access, and incentivizing for historical preservation, sustainability and accessibility.

DCED's RTA Program is intended to help stimulate community revitalization and attract homeownership to the City by reducing expenses through a real estate tax abatement for single-, two-, three-, and four-family dwellings and owner-occupied condominiums. The total cost of the proposed improvements must be at least \$2,500 for single and two-family dwellings and condominiums and at least \$5,000 for three and four-family dwellings.⁴ As of October 2024, there were 42 abatements approved by the City under the current RTA Ordinance Number 106-2023.

The City is responsible for adopting formal rules and regulations as well as standard operating procedures for the operation of the RTA Program. Applications for a tax abatement may be submitted by homeowners upon completion of improvements, or applications may be submitted by a seller/investor/homebuilder prior to the sale of the property. Applications must include all required documentation for the application to be deemed complete and accepted for review.

The City is responsible for processing and qualifying the tax abatement applications for the designated property as eligible for the county auditor's office for consideration of a tax abatement. The Hamilton County Auditor is responsible for determining the value of the tax abatement. Once the Hamilton County Auditor's office receives the qualification letter, DCED waits to receive a letter via email from the auditor's office notifying them that they have processed the abatement. The record remains open for the term of the abatement.

² <https://www.choosecincy.com/residentialcras>.

³ Ibid.

⁴ DCED RTA Standard Operating Procedures 2023.

Audit Selection

IA conducted this audit in accordance with the Audit Work Plan.

Audit Objective

The primary objective of this performance audit was to assess program performance and operations to determine if DCED is effectively and efficiently administering the Residential Tax Abatement Program.

Audit Scope and Methodology

To accomplish the audit objective, IA compared current practices to industry standards, reviewed pertinent policies and procedures, sought verification of procedures through documented reports, interviewed appropriate staff, and analyzed and calculated statistics of relevant data. Records reviewed included data generated from 2023 through 2024.

Statement of Auditing Standards

As required by the Cincinnati Administrative Code Article II §15, this audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), except for standard 5.60 pertaining to external peer review requirements. This exception did not have a material effect on the audit.

IA continues to conduct internal quality reviews to assure conformance with applicable GAGAS. IA performed fieldwork between October 2024 and December 2024.

Commendations

IA commends the staff of DCED for their cooperation throughout the audit.

II. Audit Finding and Recommendation

Management oversight of the tax abatement application review process should be strengthened.

To apply for a residential tax abatement the applicant submits an online application for processing to DCED. All applications must include the following documentation to be deemed complete and accepted for review: verification of project completion or auditor's assessment, documentation supporting cost of construction, additional certifications⁵, and a \$250 non-refundable application fee. After the application has been reviewed and recommended for approval or denial by the Development Officer, the record is sent to the Division Manager for additional review.

Once the second level of review takes place by the Division Manager, and the application is approved, the approval letter (qualification letter) is forwarded to the contacts listed on the application, and the Hamilton County Auditor.

IA carefully reviewed the 42 abatements for compliance with program guidelines and assessed the application process and technology used to manage and track online applications. IA found three errors.

- \$153,758 was entered as the total cost of improvement or new construction; however, the application summary and the qualification letter listed the total cost of improvement as \$1,537,599.
- \$548,400 was entered as the total cost of improvement or new construction; however, the actual amount of the improvement was \$54,850.
- \$161,169 was entered as the total cost of improvement or new construction; however, the application summary and qualification letter listed the total cost of improvement as \$180,000.

Recommendation 1: Implement a more robust management review process to minimize the risk of errors and ensure effective program operations.

Department Response: Agree. DCED has implemented a workflow in its policies and procedures for the Division Manager to review the monetary value in the qualification letter submitted by the reviewing staff member to ensure accuracy with the supporting cost documentation uploaded by the applicant. This policy will be followed more diligently.

DCED also has a process for updating qualification letters if there is an error identified, or new information is submitted on a Residential Tax Abatement. DCED has reissued corrected qualification letters for all three of the aforementioned impacted applications in the finding to reflect the correct monetary value. Additionally, since incentive values are determined by permit information, the errors identified by IA are not detrimental or beneficial to the incentive received by the applicant.

⁵ Environmental certification bonus, visitability bonus, historic bonus, missing middle bonus, or public transit corridor bonus. RTA rules and regulations 10/12/2023.

The Hamilton County Auditor's Office determines the improved market value based on the new remodeling or new construction using their own internal system. The monetary value on the residential tax abatement qualification letter does not determine the improved market value.

III. Conclusion

The DCED Residential Tax Abatement Program is a direct incentive tax exemption program created by the State of Ohio to aid property owners who renovate existing or construct new buildings. It permits municipalities and counties to designate areas where investment has been discouraged and offer CRA programming to spur revitalization of the existing housing stock and new development.

To protect this effort to incentivize development in the City, and to strengthen internal controls over the RTA Program, IA recommends that DCED implement a more robust management review process to minimize the risk of errors and ensure effective program operations.

IV. Department of Community and Economic Development Response



January 23, 2025

Subject: Residential Tax Abatement Program Internal Audit Response

The Internal Audit (IA) review of the Residential Tax Abatement Program Report identified an audit finding which includes three data entry errors and as well as a recommendation. The Department of Community and Economic Development (DCED) acknowledges the finding outlined in the January 2025 audit report. Below you will see a response/corrective action to the three errors that were identified as well as a more programmatic response to the finding and the recommendation.

Finding:

- \$153,758 was entered as the total cost of improvements of new construction; however, the affiliation summary and the qualification letter listed the total cost of the improvement as \$1,537, 599.
- \$548,400 was entered as the total cost of improvement or new construction; however, the actual amount of the improvement was \$54,850.
- \$161,169 was entered as the total cost of improvement or new construction; however, the application summary and qualification letter listed the total cost of improvement as \$180,000.

Recommendation: Implement a more robust management review process to minimize the risk of errors and ensure effective program operations.

DCED Response/Corrective Action: DCED has implemented a workflow in its policies and procedures for the Division Manager to review the monetary value in the qualification letter submitted by the reviewing staff member to ensure accuracy with the supporting cost documentation uploaded by the applicant. This policy will be followed more diligently.

DCED also has a process for updating qualification letters if there is an error identified, or new information is submitted on a Residential Tax Abatement. DCED has reissued corrected qualification letters for all three of the aforementioned impacted applications in the finding to reflect the correct monetary value. Additionally, since incentive values are determined by permit information, the errors identified by IA are not detrimental or beneficial to the incentive received by the applicant.

The Hamilton County Auditor's Office determines the improved market value based on the new remodeling or new construction using their own internal system. The monetary value on the residential tax abatement qualification letter does not determine the improved market value.

DCED appreciates the review of the Program by IA and will certainly adhere to its recommendation and outside of that will continue to institute effective measures that promote more quality control and better overall program administration.

Sincerely,

Markiea L. Carter

Markiea L. Carter

Director